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CURRENT BRITISH POLICY TOWARD COMMUNIST CHINA

Part A. British Pressures for Early Recognition of Communist China

Part B. British Economic Interests in China

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DEPARTMENT OF STATE

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PART A

BRITISH PRESSURES FOR EARLY RECOGNITION OF COMMUNIST CHINA

Summary and Conclusions

Pressure for early recognition of Communist China is mounting in Britain, and there are increasing signs that the Government, while denying such intention, has already drifted into a situation tantamount to de facto recognition. The British Government is caught between conflicting pressures. Britain has an important economic stake in China, painfully rebuilt after the war, which it is naturally reluctant to abandon even temporarily. At the same time established business interests and old China hands, backed by press and parliamentary opinion are urging early recognition as the sole means of safeguarding Britain s economic and political position in China and Hong Kong. On the other hand, the Government is fully conscious of its commitment to consult with the United States and the Dominions and is itself aware of the dangers of bolstering international Communist potential through hasty action on recognition. Caution is also dictated by the need for reasonable assurances that British rights and interests in China will be protected.

To resolve the problem the British Government appears to be seeking a formula that will permit it to maintain normal economic (and even political) relations through consular authorities while withholding diplomatic recognition until a common course of action can be agreed upon with the United States and the Commonwealth. In pursuance of this policy Britain has decided against withdrawal and evacuation, has counselled caution in the application of strategic exports controls to China, and has assisted its merchant ships to break the Nationalist "blockade." At the same time Britain has extended a business handshake to the Peking Government's invitation for recognition by suggesting that pending study of the situation "informal relations should be established between His Majesty's Consular Officers and appropriate authorities in territory under the control of the Central People's Government for the greater convenience of both Governments and promotion of trade between the two countries." This move toward establishing de facto relations, in effect, parallels British action toward the nascent Nationalist Government in 1926-28.

British failure to consult the United States before its reply is probably an oversight and "consultation" though not necessarily "agreement" has been promised for the future. But what if the Mao regime is unwilling to accept any status short of full recognition? Given the strong internal pressures for recognition the British Government will probably abandon its cautious policy. Meanwhile, the British Government has circularized the United States and certain west European and Commonwealth countries summarizing its arguments for recognition. Should the reaction be unfavorable

it is likely that Britain will recognize the Communist regime as the Government of China before the end of the year, probably with the support of several dominions.

I. Pressures for Recognition

Outside of official circles and a few publicists concerned with wider political considerations, pressure for early recognition is widespread in Britain and almost entirely unopposed. It is motivated largely by the desire to maintain Britain's important economic stake in China and Hong Kong. And the persuasive case of the business interests and old China hands for keeping open commercial channels in Communist areas has impressed the articulate China bloc in Parliament and important segments of the press. In fact, Britain is no longer debating the issue of recognition; the case has been made to the satisfaction of interested opinion in the country. It is the reluctance of other countries, particularly the United States, to come along that is responsible for British caution.

The factors in the British case for recognition and the sources of pressure line up as follows:

(1) The Economic Motive. By far the most compelling reason as it is the single most important source of agitation, is the strong desire to maintain Britain's economic position in China and Hong Kong. The detailed critical appraisal of Britain's economic interests, which is presented in a separate section below, indicates that even in absolute terms Britain's commercial, shipping, banking and, to a lesser extent, direct investment interests are far from negligible. What makes them even more significant than the figures indicate is the key role they play in the network of Britain's economic relations with Southeast Asia and the fact that they were so painfully reestablished after the war. The British business community in China has suffered a certain measure of dislocation as a result of the civil war and is anxious for a speedy settlement. It cannot afford to withdraw because return would be difficult and problematical. Reports from British businessmen have breathed a cautious optimism about Communist readiness to do business. The British manager of the Kailan Mining Administration, Tientsin, for example, has reported that Communist officials show some readiness to facilitate business and shipping. Of central political importance, too, is the fact that British commercial, shipping and banking interests in China are largely concentrated in the hands of a few long-established firms, run by old China hands whose views on Far Eastern matters are treated with respect by the Foreign Office. Such names as Jardine, Matheson & Co., Butterfield and Swire, and the Hong Kong and Shanghai Banking Corporation have figured in Anglo-Chinese relations for more than one hundred years. The views of such businessmen are not easily set aside. Moreover, these

firms are well-organized for political action through Chambers of Commerce in China and the UK and the China Association in London. The China "bloc" in Parliament to a large extent mirrors the views and interests of these firms and of the manufacturers in Lancashire and the Midlands interested in the export trade with the Far East. From the political standpoint, it should also be noted that just as important as the established commercial relations is the promise of future business expansion with China's "four hundred million customers" which has traditionally been a significant factor in the determination of Britain's China policy. Taken together, all these factors have impressed upon the British Government the urgency of the situation as it affects Britain's commercial relations with China.

(2) Hong Kong. Tied in with direct business interests are strong economic and political motives for wanting to hold on to Hong Kong. There is a widespread conviction among British residents in that colony that appeasement of the Mao regime would improve British chances of reaching an accommodation with the Chinese Communists. The British press has featured reports from Hong Kong stressing optimism over business prospects. And, it is pointed out, Hong Kong would become an expensive, isolated military outpost held solely for prestige reasons, unless prosperous business relations can be continued. Independent intelligence estimates, moreover, agree with the British that the Chinese Communists will make no frontal attack on the status of Hong Kong in the immediate future and that some sort of modus vivendi can be worked out. Press reports, so far unconfirmed, have also speculated that Sir Alexander Grantham, Governor of Hong Kong, would advocate early recognition at the regional British Empire conference in Singapore during the first week in November 1949. In any case, it is clear that British businessmen and officials in that colony believe that maintenance of economic relations with the mainland and support from the large local Chinese population in Hong Kong depend on the early establishment of diplomatic relations with the Chinese Communist government. Under the circumstances the British hope that the recent show of strength in Hong Kong (now garrisoned by some 16,000 troops) and their declaration of intention to defend it will induce the Mao regime to negotiate a comprehensive settlement involving mutual economic and political concessions. This is therefore a strong motivation for early recognition.

(3) Parliamentary China Bloc. Not strictly an independent factor, but nevertheless important, is the reemergence of a strong China "bloc" in Parliament which has been advocating early recognition. It consists of two factions. A left-wing (though not necessarily fellow-traveller) group in the Labor Party has long held that "the corrupt, rickety, ramshackle power of the Kuomintang" made change inevitable and that Labor Britain was the logical country to guide China's reform program into the right channels. The other group consists of non-leftists, even conservatives, who, because of business connections or because they represent constituencies which look to the China trade, take a professional interest in China affairs. Almost

without exception they have been urging the Government to take account of realities and reach accommodation with the Communist authorities. The last Parliamentary debate on China affairs, held on May 5, 1949, to debate the Amethyst incident, showed a remarkable concentration of opinion favoring British initiative in establishing relations with Communist China even at that time when its armies had not yet reached Shanghai.

(4) The Press. Though not unmindful of other considerations, particularly the need for coordinating Anglo-American world policies, the British press has on the whole lined itself up with the forces urging early recognition. Typical of press comment is that of the Manchester Guardian (April 25, 1949) opining that "the wise course in foreign politics is to try to come to terms with foreign Governments brought into being by the play of underlying forces and not to juggle with or oppose these forces." China's Communists, it argued, "would be more likely to be independent if they found their strength increased through maintaining trade relations with the Western countries." Another approach of the influential press is to state, as did the London Times (October 5, 1949) that the test of recognition is "severely practical" and does not involve the question of legitimacy or political likemindedness, but simply whether the regime is firmly established and willing to accept its international obligations. "Recognition is not yet due," it concluded, "but if the time does come when Mao Tse-tung is clearly seen to be dominant throughout the mainland, then only recognition would allow trade and other necessary business to be done." The Conservative Daily Telegraph (September 16, 1949) stated that Anglo-American differences over China were regrettable, but that on the economic side the British decision to maintain normal commercial relations was wide. Early recognition, it argued, appeared inevitable since delay might have "definite disadvantages for Western long-term interests." The Economist (October 1, 1949) contained one of the few important British articles on the issue to advocate caution. The British Government, it stated, might well be impressed by the urgency of reaching a settlement on commercial grounds, but it suggested that international considerations would force the tempo of British policy to be adjusted to the more cautious pace set by the American government. In general the more popular press has taken little interest in the issue, but there too the trend has been toward urging the government to adopt a policy which would keep diplomatic and trade channels open.

II. The British Case for Recognition

The case for recognition, which has been advanced in press and Parliament, and is generally accepted in unofficial and official circles (with some reservations) is put on the following grounds:

(1) Britain has only recently succeeded in reestablishing its prewar

banking and commercial ties with China and cannot afford to withdraw. The Communists are apparently prepared to do business and as long as possibilities exist for keeping open commercial channels it would be folly not to take advantage of them.

(2) Britain can purchase good-will by early recognition and be in a position to exert influence to the advantage of the West. Parliamentary speakers underlined the view that Britain's policy of non-intervention in the civil war is appreciated by the Communists and that Britain is now in a favorable position to keep the door open for Western interests.

(3) Although Chinese Communist leaders are orthodox followers of the Kremlin, economic and nationalist pressures make China a fertile field for Titoism, which should be exploited by the West through early establishment of political and economic ties. In any case a policy of with-drawal and hostility would only serve to drive China further into Soviet arms and give Communist leaders the propaganda advantage of pleading that Western economic pressure is responsible for their ills.

(4) Recognition is a practical matter and does not imply political approval. Without it Britain would not be in a position to take advantage of developments or protect its interests. In any event it is a calculated risk which should now be taken.

(5) Any attempt to secure advance undertakings would be of doubtful value if the Communist government should decide to adopt a hostile attitude. It would be wiser to recognize and then count on being in a position to demonstrate to the Communists that continuance of normal relations are to their advantage.

III. Development of British Recognition Policy

Britain pursued a cautious policy of non-intervention in the civil war and concentrated on the gradual re-establishment of its prewar commercial position and the restoration of Hong Kong. On broader political issues in this area Britain appeared to be content to play a secondary role to the United States. Within the past year, however, there has been a renewal of interest in China and the emergence of a more active policy predicated on the importance of maintaining Anglo-Chinese political and economic links. Although subject to the conflicting pressures noted above Britain's recognition policy stems largely from this insistence on maintaining economic and political relations with whatever authorities emerge in China; if de jure recognition proves to be the only way to maintain this position the United Kingdom will not hesitate to take this step even at the cost of acting unilaterally.

If there were no other political considerations the United Kingdom

would probably recognize the Mao regime as a practical matter. These other considerations stem from (a) the desire to coordinate policy with the United States, (b) the views of other members of the Commonwealth, and (c) desire for a quid pro quo in the form of reasonable assurances that British rights and interests in China would be respected.

(a) Coordination of policy with the United States is desirable not only because China is a vital area of central importance to Anglo-American world policies. The British Government assumed a specific undertaking during the Washington conversations in September 1949 to (a) avoid an appearance of "eagerness" vis-a-vis the recognition issue, (b) maintain close and continuous consultation with the United States and (c) so far as possible adopt a common course of action. Britain's sympathetic reply to Chou En-lai's invitation for recognition was sent without regard to this commitment, but Foreign Secretary Bevin has since promised that in the future no action would be taken without "prior consultation" with the United States. He made it clear, however, that there was no obligation for "prior agreement". Up to now the major effect of this obligation to consult has been to put a brake on the tempo of British policy rather than to modify it.

(b) The general obligation to consult with the dominions will tend to reinforce the British decision to accelerate recognition, although in general the dominions do not feel so strongly on the issue as the United Kingdom. India is reported to be prepared to recognize the Chinese Communists as a token of its acceptance of "realities" in China and of its readiness to take an independent line in Asian politics. Australia favors early action on the ground that delay would worsen the bargaining position of the Western powers, but Evatt stated on October 25 that recognition action would be concerted with both the United States and Britain. In addition to the usual practical tests for recognition (control of area, popular support and respect for international obligations), Australia favors assurances of respect for the territorial integrity of neighboring countries. Canada still has the issue under review, but tends to support the British position favoring maintenance of de facto relations. The Canadian Ambassador to China, T. C. Davis, has been urging the wisdom of early recognition since his return from China and Minister of External Affairs Lester Pearson has recently stated that any government meeting the practical tests of international law is entitled to recognition. Meanwhile, Canada has replied to the recognition invitation that the situation was being studied, but that in the meantime it was hoped that Canadian consular officers in China might be permitted to carry on normal functions. The reply was not quite so cordial as that of the United Kingdom but aimed at the same formula of accommodation. Whether or not it succeeds in getting United States support, Britain will endeavor to persuade the dominions to join in a common policy on recognition.

(c) Another consideration in United Kingdom policy is the deisre for assurances that British rights and interests in China will be respected.

On October 5 Attlee stated that the government would proceed slowly on the recognition issue and that there were many facets to the problem including the Communist attitude toward international obligations; on the same day Bevin stated in Ottawa that Britain was keeping an "open door" in China, that it had to consider established treaties and obligations, and that Britain's stand would depend in large measure on the treatment accorded to its nationals by the Communists. This concern, however, appears to have been completely overlooked in the actual reply to the Communist bid for recognition which Britain sent on the very same day that Attlee and Bevin were speaking in such cautious terms. The actual text of the reply will be considered below. Here it is sufficient to note that the reply made no mention of established British rights and interests in China. The British Government seems to have changed its views on the importance of getting assurances on rights and interests as a condition of recognition. In its circular telegrams of October 29, 1949, to British missions abroad outlining the British brief for recognition, the Foreign Office makes the point that an attempt to secure advance undertakings on this score would serve no purpose since they would fail to deter the Communists if they decided to adopt a hostile attitude.

The actual course of British policy has been pointed toward the maintenance of economic ties with China and the continuance of de facto relations. Britain has taken the first step toward the establishment of "informal relations" with Chinese Communist government authorities and is urging the United States, the British Commonwealth and Western Europe to join with it in according early recognition to the Mao regime. The sequence of British policy follows:

(1) As long ago as December 1948 the Government decided against a policy of evacuation and with-drawal. Consular officers remained at their posts after the Communist take-over and commercial communities were encouraged to stay on. On May 5, 1949, Defense Minister Alexander reported to Parliament that "as far as we are aware, there has been no molestation of British subjects in the areas over-run by the Communists, who appear to maintain in the areas they have overtaken effective law and order."

(2) In connection with control of strategic exports to Communist China, the British have also insisted that maximum economic relations should continue and that no policy should be adopted which might be regarded by the Chinese as a threat to impose economic sanctions. Britain has agreed to impose controls on 1A (strategic) items from the United Kingdom, Hong Kong and Singapore, but has refused to extend such controls to 1B items (mining equipment, power generators, essential transport materials, steel mill equipment) except for petroleum products.

(3) British policy toward the Nationalist "blockade" has recently stiffened. On October 31, 1949, the Hong Kong Government disclosed that

the British Navy has been assisting merchant ships to keep shipping lanes to Communist-controlled ports open by escorting vessels to the three-mile limit. British war vessels have actively stopped Chinese Nationalist gunboats from interfering with shipping outside territorial waters. Britian has also taken a step calculated to end formal diplomatic relations with the National Government now at Chungking. On October 21, 1949, the British Consul General there informed the Chinese Foreign Office that he had received authority "to maintain official contact with the Foreign Office but without diplomatic status". At the same time he indicated that Britain does not intend to re-establish diplomatic representation at the Nationalist seat of government.

(4) Finally, on October 5, 1949, the British Government took the preliminary step toward establishing de facto relations with the Communist regime. In reply to Chou En-lai's overture requesting recognition of the Chinese People's Government the British Consul General in Peking made the following official communication:

> His Majesty's Government in the United Kingdom are carefully studying the situation resulting from the formation of the Central People's Government. Friendly and mutually advantageous relations both commercial and political have existed between Britain and China for many generations. It is hoped that these will continue in the future. His Majesty's Government in the United Kingdom therefore suggest that pending completion of their study of the situation informal relations should be established between His Majesty's Consular Officers and appropriate authorities in territory under control of the Central People's Government for greater convenience of both Governments and promotion of trade between the two countries.

The British Government has taken the position that this note does not accord de facto recognition and that it had no such intention. However, it has been informally admitted that it can be so construed and that in any case it involved a major step in the direction of recognition. There was no prior consultation with the United States and through an oversight at the Foreign Office the United States was not given the text of the reply until October 11, six days after it was handed to the Chinese Communist government. Although Foreign Secretary Bevin has since agreed that the United States is entitled to "prior consultation" he has refused to commit Britain to "prior agreement" before taking action on recognition.

The British would prefer, of course, to keep in step with the United States on this issue, and on October 21 Bevin told Parliament that the Government "propose to consult with other friendly governments" before reaching a decision on recognition. If this statement means anything it must refer to the timing of recognition rather than the decision to do so.

Britain still hopes to persuade the United States to follow a common course of action. But, as was noted above, the forces and pressures for early recognition in the United Kingdom are overriding. Assuming that the Mao regime will not be satisfied with anything short of full de jure recognition, the British Government will find it difficult to resist internal pressures to grant such recognition.

The decision to recognize has been taken, although its manner and timing are not yet clear. The Foreign Office in telegrams dated October 29, 1949, circularized Washington, the Dominions and West European capitals for their reaction to the British brief setting forth the case for early recognition. The Foreign Office has requested that these views be made available within two weeks for consideration after the Singapore Conference of November 2-4, 1949, where British diplomatic and military representatives in Southeast Asia studied the issue. It was the unanimous opinion of officials attending the conference, even die-hard colonial administrators, that recognition should be accorded as soon as possible. The conclusions reached there were that (a) British interests in China and Hong Kong demand earliest possible de jure recognition (b) such recognition is desirable to protect the British position and combat Communism in Southeast Asia and the Far East generally and (c) no formal conditions can be attached to recognition, but that the British Government should formally state that it assumes the new government accepts China's existing international obligations. If the British case should prove unconvincing to other Western governments, it is highly likely that the British Government will nevertheless act unilaterally and recognize the Chinese Communist government before the end of the year. At the Canberra Conference held on November 10-11, 1949, the United Kingdom discussed with Australia and New Zealand the formulation of a common line on China, and it is likely that some the dominions will join Britain in de jure recognition.

PART B

BRITISH ECONOMIC INTERESTS IN CHINA

Summary

Of present British interests in Chinese trade, shipping, investments, and government obligations, the UK may with some reasonableness -- even in a China under Communist control — look forward to the maintenance and expansion of trade and shipping business, and the maintenance of or compensation for investments, perhaps excepting government debt. Business with China is not now a large factor in the British foreign economic position, but it is still of significant size and the outlook for important growth is promising. Britain retains a substantial share of Chinese foreign commerce, shipping, and business operations, in spite of the growing importance in past years of Japan and the US, and in spite of Chinese nationalist measures. Trade and shipping volume with China in 1948 amounted to some 1 percent of the UK's total trade and shipping business. Such a volume of business is more than usually significant to the UK because of the continuing balance-of-payments difficulties. Moreover, there is now, with a weakened Japan and with the pound devalued against the dollar, every opportunity of increasing the British share of the Chinese market.

In addition, there is the fact that the China trade provides the economic basis for Hong Kong.

The UK's investments in China are very substantial, aggregating about £168 million in 1938, or 4 percent of the UK's total foreign investments. At today's higher prices, even allowing liberally for depreciation, they are probably to be valued at between £250 and £275 million. Present investment income is negligible because of China's restrictions on the remission of earnings and because the government debt is in default. These holdings are important, however, either from the point of view of potential earnings or of compensation in the event of expropriation.

The UK apparently contemplates a continuance of trade and shipping with China for their intrinsic value and also as a necessary step toward preserving the British investment position. The UK has consistently and effectively used the value of its trade as a lever to obtain settlements for British investments from Russian satellite countries as well as from other countries such as Argentina. A similar policy and similar effectiveness could be expected in China. Thus the economic factors in the China situation support and strengthen the UK's policy of avoiding any semblance of economic warfare with the Communist countries.

I. Changes in the British Economic Position in China

From the beginning commodity trade was the key element in the UK's economic interests in China. The value of trade was the basis for efforts starting in the first half of the nineteenth century to maintain and expand the treaty-port system, to obtain concessions for the foreign settlements and extra-territoriality for foreign subjects and to keep China's import tariffs at negligible levels. The shipping business developed primarily through carrying Commonwealth goods. And trade is the basis of over two-thirds of the business investments: wharves, warehouses and other trading facilities, a substantial part of the real estate, and the banking and financial enterprises, engaging primarily in foreign transactions servicing trade. Up until 1900 Britain dominated China's international economic relations. Prior to that time one-half of China's foreign population was British; the British Empire sold 90% of China's imports and received 70% of Chinese exports; 43% of the foreign firms, one-third of foreign investments, and 60% of foreign and inter-port shipping were British. Many of the influential firms now engaged in business in China date from this period. Since the turn of the century the UK's business in China has in most fields increased; but with greater American and Japanese activity, the British share of the market has shrunk. In some cases increased Chinese nationalism and native economic development, along with the disruption of war, has meant an absolute decline in business volume. Foreign control of China's tariffs ended in 1928; from the mid-thirties exchange control has limited transactions; before the war, too, the importance of the foreign banks declined with domestic monetary reorganizations; immediately after the war inter-port trade was reserved for the Chinese; in 1946 the remission abroad of interest, profits, and dividends was stopped; the treaties of 1943 with the United States and the UK ended the special privilege of extra-territoriality. From that point foreign concerns and individuals were subject to Chinese laws and to Chinese taxes. So that in future the UK faced altered and more competitive economic activities in China; the dominant andprivileged economic position of the British was over quite apart from the Communist victories.

II. Trade

Even so, current and prospective trade and invisible earnings from China are significant items to the UK, especially at present because of the UK's balance-of-payments difficulties. The same proportion of British trade would have been less important before the war in a situation of easier trade balance. The UK's export trade with China, including indirect sales through Hong Kong, is estimated at roughly £23 million in 1948 and imports at £13 million. This trade, while significant, is not overwhelmingly important to the UK either in content or in volume. It amounted to about 1% of the UK's total 1948 trade. Exports to China were roughly one-quarter of those to India, one-third of those to Canada. The import trade showed a similar relative position. However, in a period when the UK is

straining to boost export volume and to develop intensively all non-dollar sources of supply, the China trade has importance. It would be difficult for the UK to face the loss of a market practically the size of Brazil's or to see wiped out the equivalent of a quarter's planned gain in the total export drive. The exigencies of the balance-of-payments position would be better served by a steady expansion of business with China.

Two factors of importance in assessing the value of China's trade to the UK are its potential as contrasted with its current actual volume, and the commercial importance of China to other Commonwealth countries. Trade with a peaceful China, with competition from Japan greatly limited, and with British goods cheaper than American goods following devaluation, could double in volume. Now the opportunity presents itself of regaining a larger share of the Chinese market. United States goods, which made up 17% of China's purchases in 1938 and 48% in 1948, may be expected to show a relative decline as means of financing their import dry up and as devaluation accords a price edge to British goods. Then, while the UK fears a resurgence of competition from Japan, at present such competition is at a low ebb. While before the war Japan enjoyed fully one-quarter of the Chinese market, in 1948 its goods made up less than 1% of China s purchases. There is room for expansion of UK sales even if the market for Russian goods is at the same time expanding.

Adding the volume of trade done with China by the Dominions and other sterling area members, multiplies by nearly four times the commercial importance of China to the Commonwealth. Over the course of the war the share of these countries as a whole in the Chinese market has risen from 20% to 30%, with Canada and India especially increasing their relative position.

On the import side similarly, the current volume of trade with China is not overwhelming in magnitude or strategic composition but is nevertheless significant. The present level of 1/2 of one percent of the UK's total imports compares with 1% before the war. China cannot provide a substantial non-dollar source of supplies. Last year UK imports from China were only 2% of those from the United States and Canada. However, between 80% and 85% of the UK's trade, by which it lives, is non dollar trade. And one-quarter of the UK's imports comes from areas whose trade, singly, does not amount to more than 1% of the total. Imports from China of egg products, tea, soy beans, tun oil, and bristles are lower than they have been in the past and could be increased under conditions of political stability.

III. Shipping

Sales and purchases of Commonwealth goods are the basis also of

Britain's extensive shipping interests in China. Practically all British goods in the China trade and a substantial portion of goods moving between China and other countries go in British ships. In the thirties the UK, as the leading carrier, accounted for 36% of the tonnage in China's foreign trade and 41% of tonnage in inter-port trade. In 1940, even after many ports of China were closed to British vessels, 25% of the tonnage in China's total foreign and inter-port trade was British compared with 45% for Japan. After the treaties of 1943 which terminated many of the special privileges of foreigners, China reserved for the Chinese future business in port-to-port shipping. This action affected about half of the British tonnage entered and cleared in the China trade, but a considerably lesser proportion, of course, of money volume. In spite of this change and although the United States has become the ranking carrier in China's foreign trade, a goodly proportion of shipping business remains with the UK. In 1948 the UK carried 25% or more of total Chinese foreign trade. As in the case of trade volume, and because of the fact that the UK can look forward to more trade to be carried, the opportunity exists for increasing shipping earnings in the Orient significantly. While a revival of Japanese shipping is to be expected as a result of United States policies in Japan, the Japanese shipping position is temporarily weak. Moreover, devaluation now gives added advantage to the UK in competing with American merchant ships.

It is estimated that in 1948 the UK's gross receipts from shipping in the foreign trade of China amounted to between three and four million pounds sterling. This bears a slightly higher relationship to the UK's total shipping earnings than the China trade to total UK trade, amounting to somewhat over 1% of total gross shipping receipts. It is not a major segment of British shipping business, but, on the other hand, in the post-war period of balance-of-payments difficulties, is not a negligible quantity either. It should be noted also that the trade routes to China serve many more ports than Hong Kong and Shanghai. This network of trade routes should be considered in its entirety: the loss of Chinese shipping would not leave the remainder intact. The pattern of routes within the Orient as a whole, and between the Orient and other countries earned generally before the war about one-quarter of the UK's total receipts on shipping throughout the world.

IV. Investments

The UK's investments in China, originally wholly connected with trade but later including manufacturing and a minor amount of mining, grew

to very substantial proportions.[1] Only a half-dozen other countries of the world had, at the start of the war, larger British investments: Canada, the United States, Mexico, Argentina, Australia and India. 40% of all British foreign investments were in countries with totals as small or smaller than the £ 168 million at which UK investments in China were estimated in 1938. At that time investments in China amounted to just under 4% of total British investments abroad. Because of the wartime liquidation of the UK's foreign holdings elsewhere, it is clear that today holdings in China bulk even more heavily in the smaller total remaining.

Since the war receipts of interest, profits, and dividends from China have been negligible in the UK's balance of payments. The British enterprises, heavily concentrated in Shanghai, have not suffered war damage and are generally showing good profits. However, since 1946 China has stopped the remission abroad of interest, profits and dividends accruing from foreign business investments. The Chinese government obligations have been in default. This recent experience is not, of course, a good measure of potential invisible earnings from China. Before the war it was estimated that the business enterprises returned roughly 10% annually on investment. Assuming that one-half of this was remitted to the UK (the other half being ploughed back or paid out to British nationals resident in China) would mean receipts of £8.5 million per year, or 4% of the UK's total prewar receipts from abroad of interest, profits, and dividends. The reasonableness of this estimate is borne out by the fact that investments in China were about the same percent of total British foreign investments. Since the prewar period the earning power of the business investments has, to be sure, moved up along with prices. If customary remissions of interest, profits, and dividends were being made, and if servicing of the government obligations (prewar only) were resumed, receipts on current account from China could be expected to total some £17 million per year, or nearly 10% of the UK's present total gross receipts from loans and investments abroad.

1. C.F. Remer estimated the distribution of British investments in China and Hong Kong combined, as of the end of the 1920's, as follows:

Transportation	14%
Public Utilities	5%
Mining	2%
Manufacturing	18%
Banking and Finance	12%
Real Estate	21%
Import, Export and General Trading	25%
Miscellaneous	3%
Total	100%

British investments in China are of three main types: direct business investments, prewar Chinese government obligations owned by private UK firms or citizens, and Chinese government debts to the UK government incurred in WWII. (See table pg 17.) The latter group, consisting of several stabilization and export credits, is the smallest; £12.662 million were outstanding at the end of 1948. Prewar Chinese government debts date back to 1898, and were incurred for such items as railroad construction. The history of these loans shows several periods of default, new agreements, and the resumption of certain payments. No payments of principal or interest on these debts has been made since 1939. At that time the principal outstanding amounted to £55 million. If debt service were to be resumed, interest would amount to £ 2 1/2 million per year. Under the various loan agreements most of the interest payments are due from Chinese Maritime Customs revenues and Salt revenues. At this time principal and accrued interest together amount to an estimated £80 million.

The British Government, as late as 1948, on behalf of the Chinese Bondholders' Committee, the British and Chinese Corporation, the Hong Kong and Shanghai Banking Corporation, and other British creditors, continued to press the Chinese government to resume service on these loans. On its part the Chinese government reiterated its hopes and intentions of honoring the prewar debts, although current financial difficulties precluded immediate action.

The bulk of British investment interests in China, and the most profitable ones, are, however, in the form of direct business undertakings. Private investments were concentrated in the treaty-ports and the foreign settlements where, up until 1943, extra-territoriality was enjoyed. 85% to 95% of British business investments are centered in Shanghai. Under the Chinese national government in the last few years, conditions more usual among countries were instituted with respect to foreign business investments. Following the treaties of 1943 with the United States and the UK, and the FCN treaty of 1946 with the United States, certain more favorable conditions were established. With a few exceptions foreign investors could obtain land throughout the country and not only in the concessions. However, the special privileges of extra-territoriality, including exemption from Chinese taxes on business, were ended.

Thus British business investments in China have generally retained and increased their value up to the present time. From either the point of view of maintaining current earnings or obtaining compensation in the event of expropriation, these investments are important to the UK. In this connection the UK's policies and accomplishments with the European satellite countries is relevant. For some time past the UK has concluded no trade agreements with these countries without obtaining settlements on debts and compensation for nationalized properties. (The Polish 5-year agreement, signed early, contained only a provision to discuss these

questions, and so far the discussions have come to no conclusion). The recently negotiated agreements with Czechoslavakia and Yugoslavia contain debt settlements, and it appears that similar agreements will be reached in the near future with Hungary and Bulgaria. The UK has so far refused to consider a trade agreement with Rumania because of the compensation question.

As of 1938, British investments in all the European satellite countries combined, amounted to only 60% of their investments in China.

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VALUE OF BRITISH INVESTMENTS IN CHINA

(£ million)

	C. F. Remer U. of Michigan 1929-1930	Cleona Lewis Brookings Institute 1938	E. Kann Shanghai "Finance & Commerce" 1941	Postwar Estimate/b
Business investments	179.5	113.0	119.0	176.0
Chinese government obligations owned by UK nationals	46.4	55.0	16.0 /a	80.0
Chinese government obligations to the UK government				12.7
Total	225.9	168.0	135.0	268.7

/a Appears to exclude most government obligations other than the railway loans, which amounted to £13 million.

/b Debt of Chinese government to UK government for wartime stabilization and export credits from A-2195, London 11/30/48, (Unclassified). The value of business investments estimated from 1938 value adjusted for upward price movements and making allowance for depreciation of assets. Bonded indebtedness held constant at 1938 figure, with estimated accrued interest at £25 million added.

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